A REPORT ON ASSESSMENT & TAXATION

TO

THE MUNICIPAL TAXATION REVIEW COMMISSION

CITY OF VANCOUVER

PREPARED BY

THE BRITISH COLUMBIA ASSESSMENT AUTHORITY

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I.
INTRODUCTION

I. INTRODUCTION

This paper was prepared by the British Columbia Assessment Authority to accompany the Assessment Commissioner's presentation on Thursday, February 9, 1989, to the City of Vancouver's Municipal Taxation "Review" Commission. The paper is divided into ten sections, each with a different objective.

It is a preliminary position paper and addresses a variety of topics. This paper is Step One in a process that will lead to a major international seminar on Real Property Taxation at the University of British Columbia in May of this year and a major research paper on the topic by this summer.

This preliminary paper deals with several areas:

- A history of how taxation systems have evolved in the western world over the past one thousand (1000) years.
- A review of the real property tax system in British Columbia from colonial times to present.
- A clear description of the characteristics of an ideal taxation system.
- A review of several topical suggestions for replacing or changing the market value basis of real property taxation in British Columbia.
- Clarification of the British Columbia Assessment Authority's role in the system.
- A measurement of how close British Columbia is to the ideal property tax system.
- Conclusions.

II.
HISTORICAL REVIEW

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A. THE ORIGINS OF OUR SYSTEM OF TAXING REAL PROPERTY

Our property taxation system has roots that are 1,000 years old, dating back to the time of the Norman invasion of England. In those days, King William began granting land to his barons. In exchange for these estates, the barons were required to provide the king with military protection. Any baron who failed to make good on his side of the bargain - for example, if he failed to provide knights to fight for the king in time of war - had his estate taken back by the Crown.

In some ways, land grants were an inverted tax system. The king supplied the revenue in the form of land -- some of it seized in foreign wars -- and the citizens provided the services. The land grants system, combined with the income the King generated from this own land through rents and the sale of produce, was essential in maintaining the monarchy. This was the feudal era.

By the 13th Century these feudal forms of generating public income were failing because society was becoming more complex. To meet the new needs for revenue, local juries were appointed by officers of the Crown. Their job was to determine the income of clergymen and other citizens and apply a 'voluntary' tax. The tax was called voluntary but, in fact, the church consented to it on behalf of all clergymen. Parliament agreed to it on behalf of everyone else. Revenues from the tax were still small compared to the plunder from wars and export and import duties on staples such as wool.

In the 15th and 16th Centuries, England was in a recession. To raise revenues, King Henry VIII seized and sold property of the monasteries. His timing was right. People were hungry to own land and values rose. The selling of Crown land continued throughout this period and into the 17th Century, as an alternative to raising taxes. In the middle of the 16th Century, laws were passed requiring wealthier citizens to support the poor.

By the 17th Century, each parish had been made legally responsible for looking after the poor born within the parish. Their response to the new requirement was to establish workhouses. At the same time, the continuing sale of Crown land was providing landowners with great wealth. But with the wealth came the responsibility for paying most of the taxes imposed by Parliament and the requirement to help maintain the workhouses. Gradually, the feudal system was abolished. Landowners were relieved of many of the payments they had been required to make to the King on pain of having their land taken away.

By the late 18th Century taxes were placed on luxuries. Real property was taxed according to the number of windows in the house. While this directly taxed the rich on the basis of their property, it also indirectly taxed manufacturing. Many of the new rich had made big profits in the manufacturing industries, allowing them the luxury of installing many windows in their new homes. Oppressive excise duties were collected on life's necessities such as candles, soap and salt. Smugglers did not bother with trafficking in such necessities and concentrated on supplying the rich with luxury items, which had the effect of making luxuries duty-free.

Direct income taxes were introduced by the English Parliament in the middle of the 19th Century. These taxes spread the burden of taxation more evenly across society and less heavily on the shoulders of industrialists and traders who had suffered from the excise and customs duties. Local taxes continued to be paid by householders in their communities. These rates, which were used primarily to support the poor, marked the start of a familiar pattern, "administration in detail by locally elected bodies, local responsibility for finance, but also supervision by the central government," as noted by D.H. Wilson in his book, 'A History of England', a source used extensively in preparing this paper. This early system of local taxation formed the basis of the 'ad valorem' system of real property taxes in the 20th Century in British Columbia.

B. EVOLUTION OF REAL PROPERTY TAXATION AND THE ASSESSMENT FUNCTION IN BRITISH COLUMBIA

Introduction

The Assessment Authority Act and its companion Assessment Act were passed in 1974. They are the products of more than 100 years of development in real property assessment and taxation law in British Columbia. They are the descendants of the Assessment Equalization Act, the Municipal Act, the School Act, and the Taxation Act. Their immediate parentage was the 1974 report by the all-party Legislative Committee created to review assessment procedures. Other boards and royal commissions over many years recognized that to have an equitable assessment system, it was necessary to have standard assessment procedures and central administration.

Early years

Even before British Columbia became part of Canada in 1871, there was provision for assessments.

In 1860, British Columbia and Vancouver Island were separate colonies. In that year, a proclamation established New Westminster as the first city in the colony of British Columbia. An assessor was appointed to assess freehold and leasehold property at its actual value.

In 1872, after Confederation, the first Act governing municipalities also required the preparation of an assessment roll. After "diligent enquiry", the assessor was required to set down "a full description of all taxable property within the municipality showing the extent and value or amount thereof."

Assessors remained employees of the municipalities until the British Columbia Assessment Authority was created in 1974. Not only did the municipal councils appoint them - but the Councils were, in fact, their Courts of Revision for many years. They were employed by the councils which had the power to "equalize" assessments if they were considered too high.

In 1860, **The Real Estate Act** was passed in the colony of Vancouver Island. Under the provisions of this Act, an annual tax of one per cent on the market value of real estate was levied. Assessors were appointed but their duties required little appraisal expertise, since owners simply made a statement as to the real estate they held, giving its measurements and the actual market value of the land and improvements. This information was used by the assessor to compile an assessment roll.

Also in 1860, the Road Act required the assessor to make a list of people liable for labor or able to supply animals and implements for road construction.

It is interesting to note that even today the tax paid by many homeowners still represents approximately one per cent of market value.

In 1871, when British Columbia joined Confederation, the whole province, except Victoria and New Westminster, was unincorporated. An assessment and taxation system was required for these unorganized areas. The first Wild Land Tax Act in 1872 levied a tax of four cents an acre on most unimproved land not used for pasture. Collectors were appointed to make a list of all land liable to the new tax but it was landowners themselves who submitted a Land Tax Assessment Paper stating the size and value of their land and the nature of improvements. This Act was replaced the next year by an Act which imposed an annual tax of one per cent on the value per acre. The new Act also required the appointment of an assessor.

In 1876 this Act was replaced by the first Assessment Act which imposed, with a number of exemptions, assessments and taxes on land, which included buildings and machinery in the unorganized areas and on certain personal property and income in all parts of British Columbia. An interesting aspect of this Act was the provision for proportional assessment when a property was owned or occupied by more than one person.

In 1903-4 this legislation was expanded to provide for special taxation of real and personal property and income. This was an era when steamships and other watercraft were considered personal property and were taxed as such.

The first investigation in property taxation

In 1905 the first commission to hold hearings into the operation of the **Assessment Act**, as revised in 1903, was appointed. The recommendations of this commission included that assessors' duties be confined to assessment work; that assessors meet and compare the basis of their assessments; and that assessments be based on personal inspection of properties at frequent intervals. Provision was later made in the legislation to create a Board of Assessors whose duties included deciding on the best methods to obtain equitable assessments throughout the province.

The boom years and the not so boom years

The years from 1900 to 1914 were prosperous in British Columbia. There was considerable immigration and growth.

Railroads were incorporated for construction all over the province. Some were actually built.

Land speculation was rampant and values appreciated so much that properties alone provided an adequate tax base for municipalities. Land assessments increased ten-fold from 1904 to 1914 in Vancouver and sixfold in Victoria. The single tax theory was in favor.

To shift the tax burden from resident owners to absentee owners and land speculators, improvements were exempted in stages in 1910, by Vancouver and by Victoria in 1911. All together, about 20 municipalities followed this policy. It paid to improve property rather than speculate on it.

In 1914 the land boom ended just as assessments were catching up with the inflated market. The collapse had a

devastating impact on municipal finances. Taxes fell into arrears. Thousands of parcels of unimproved land reverted to municipalities at tax sales. Many municipalities started taxing improvements again. Despite the crash in land prices, some of the inflated values were carried on assessment rolls for 30 years, right through the Depression, as municipalities tried to avoid tax rate increases and to maintain their borrowing power. Of course, the quality of assessment rolls deteriorated. Inequities between properties and between municipalities became substantial. In 1925, J.H. Putman and G. M. Weir, in their Survey of the School System, found significant differences in school tax rates. "The rate may be high but levied on land only or on an assessment that is below real value, or a rate may be comparatively low and levied on an inflated assessment."

The trend toward centralization

Before 1933 many American states had established central commissions to oversee the work of assessment. Reports in Saskatchewan and Manitoba, as early as 1917, had urged similar bodies. But British Columbia was slow to accept this concept.

Putman and Weir argued in 1925 that "a just assessment is a matter of honor but is also good business ... A just and equitable assessment must be the basis for any sound scheme of provincial finance". They urged the provincial government to take the responsibility for equalizing the assessment of real property.

In 1934, Judge A. M. Harper, in his report on municipal affairs, suggested the proposed Bureau of Municipal Affairs administer assessment laws and supervise assessors. This would create uniform procedures and equitable values.

In 1935, H.B. King, in his report on school finance in British Columbia, also emphasized the need for equalization of assessments on a scientific basis. He argued that lack of provincial government interest in municipal assessment and exemptions had contributed to the bankruptcy of some municipalities and had adversely affected government grants to schools.

In 1945, yet another report was published, this time by the Commission of Inquiry into Education Finance. In this report, Maxwell A. Cameron revealed the sorry state of assessments. He found school tax rates varied from 1.3 mills in some districts to over 50 mills in others, largely because of differing assessment levels and taxation bases. He also said, "Assessments at values fixed during the real estate boom which preceded World War I are not unknown."

Cameron's key recommendation was that an agency be set up to supervise and equalize assessments in the municipalities and in the unorganized areas of British Columbia.

Two more commissions were appointed in 1946 and 1948. The 1948 commission, known as the British Columbia Royal Commission on School Taxation, was chaired by H. Alan McLean. It recommended that an authority be established to bring about a province-wide equalization of assessments.

The situation in the late 1940's

Even before needed changes were made to assessment and taxation laws, provincial assessors were under some central control through the Surveyor of Taxes. After World War II, specialists in forestry, agriculture and industrial

valuation were hired to assist the assessors. A building cost manual was prepared about 1950, roll production moved to Victoria and basic data processing was introduced.

Except in the larger jurisdictions, most municipalities and provincial assessors still lacked enough trained staff. In some smaller municipalities the municipal clerk was also the assessor. The assessor often held other positions. As late as the 1950's an appraiser appointed under the Assessment Equalization Act found a local assessor driving the municipal grader, one of his many duties! Some municipalities hired an appraiser periodically to make their assessments.

Little was being done to ensure assessment uniformity and in 1948 assessed value varied from 30 per cent of market value to several times market value throughout the province. During the late 1940's, a group of assessors formed the British Columbia Association of Assessors with the goal of improving assessment procedures and staff. The new group grew rapidly and held its first conference in Penticton in 1950.

The Assessment Equalization Act

Finally, in 1953, action was taken on the McLean recommendations with the passing of the Assessment Equalization Act. The Act required that land and improvements be assessed at their 'actual value'. This term has been given the same meaning as 'fair market value' by the courts. The Act required the appointment of an Assessment Commissioner and staff. The Assessment Commissioner was given broad powers to equalize assessments within the province and to order a complete or partial reassessment in any municipality or rural area. If a reassessment was not satisfactory, the Commissioner could

have his own staff carry out the reassessment and recover 80 per cent of the cost. However, the ability to exercise this power, except in the smaller jurisdictions, was frustrated by a chronic shortage of staff. Nevertheless, the quality of assessments gradually improved and a fair degree of equity was achieved throughout British Columbia.

The Assessment Equalization Act required that assessments be at actual value but, in practice, they were set at a lower level. The Act was amended and percentage assessments, which started out as 60 per cent of 1953 actual values, were decreased to 50 per cent of actual value by 1961.

Few pieces of legislation have been amended as much as the sections of the Assessment Equalization Act that covered actual value and the level of assessment. Six major changes were introduced between 1959 and 1973. Most of the changes were contradictory to the whole idea of assessment equalization. The Act that was drafted to establish an equitable assessment base, eventually brought about its own downfall.

The situation in the 1960's and 1970's

In the late 1960s, steadily increasing residential real estate values shifted the tax burden to the homeowner. In 1966 the provincial government, concerned by dramatic increases in assessment, introduced a ceiling on annual assessment increases. Only if there was a physical change or new construction could assessment increases exceed the ceiling.

It was clear this capping process would inevitably destroy the concept of equity. Obvious under-assessments could not be corrected and the permitted increase was not enough to respond to inconsistent shifts in market value even within a single taxing jurisdiction. A variety of other restrictions were introduced later and the situation became worse.

By 1972 the situation was a matter of concern for school districts and municipalities. There was confusion because the format of assessment notices varied among municipalities. It was difficult to compare assessments or determine whether an assessment was too high. Two reports were prepared. One was by Dean P.H. White and Dr. S.W. Hamilton in 1972 on real property tax in British Columbia, for the B.C. School Trustees Association. The other was written in 1973 on municipal taxation by the Union of British Columbia Municipalities. Both recommended improvements to the assessment system.

A partial remedy was attempted in 1973. Limitations on assessment increases for all types of property, except land and improvements used for residential purposes or classified as farmland, were removed. Commercial, industrial and some other types of property could again be assessed at 50 per cent of actual value.

In just 20 years, the vision of equity had been achieved to some extent - then dismantled. In particular, the volatility of the residential real estate market made it obvious that equity and restrictions on assessment increases could not co-exist.

Besides the problem created by the various restrictions introduced over the years, there was another basic flaw in

the assessment function. A branch of the provincial Ministry of Finance was responsible for assessments in the rural areas and in villages. All other municipalities - cities, towns and district municipalities - employed their own assessment staff.

While some of the larger municipalities could justify employing qualified appraisers to maintain uniform assessments, many smaller municipalities did not feel justified in paying enough salary to attract qualified people. There were many cases where the assessor would do double duty as a building inspector. Almost invariably, such an individual was not a qualified appraiser and the assessment function was neglected. Generally, the quality of assessments in the smaller municipalities was poor.

Dividing assessment responsibility between assessors employed by the municipalities and assessors employed by the provincial Ministry of Finance caused two other major problems. First, assessment staff were inefficiently distributed in the various regions of the province. Second, it appeared that assessors were under the control of the taxing authority.

Before 1974, there were 140 independent real property tax assessment organizations. Assessed value levels ranged from 8 per cent to 20 per cent of market value for residential properties. Commercial/industrial assessments were at 50 per cent. With the amalgamation of school districts, hospital jurisdictions and other taxing bodies, the province found that huge equity problems were created because uniform taxes were being levied against properties in different municipalities, many with different levels of assessments. It was possible for school or hospital taxes on two comparable houses across the street from one another but in different municipalities, to be vastly different because they were assessed differently.

In 1974, the growing problems of real property assessment were recognized by the government and an all-party legislative committee was appointed to study the situation. For several years, municipal leaders had requested that the assessment function be placed in the hands of an independent body, free of provincial and municipal political influence. The Union of British Columbia Municipalities passed resolutions and, in early 1974, presented a report to the legislative committee recommending the establishment of an independent assessment authority.

After completing a comprehensive review, the legislative committee recommended "that legislation be introduced at the current session to create a province-wide assessment authority. This authority must be independent of taxing function (either municipal or provincial) and its control must be such as will result unmistakably in complete independence."

The recommendation was adopted by the Legislature and in July, 1974, the Assessment Authority of British Columbia Act was passed, establishing the British Columbia Assessment Authority.

Establishing a single agency responsible for the assessment of all property in the province was a major step forward. The new Assessment Authority began work immediately and met its objective of producing the first assessment rolls and notices by December 31, 1974. Very soon, 27 area offices were established, mostly staffed by the people who had been employed in the municipal or provincial assessment functions. Extensive training programs were undertaken to ensure employees produced high quality assessments. A large data processing system was set up and is now successfully functioning in all offices. All

taxpayers, whether their properties are in large or small municipalities or in a rural area, now enjoy access to the same quality of expertise and service.

Also in July 1974 the Assessment Act was passed and the Assessment Equalization Act, with its restrictions on assessed value increases, was repealed. Before the Assessment Act, legislation on assessment had been scattered among a number of different Acts, notably the Assessment Equalization Act, the Taxation Act, the Municipal Act and the Vancouver Charter. The new Assessment Act contained all assessment legislation. The other Acts retained the legislation pertaining to taxation but sections relating to assessment were repealed. A key provision of the Assessment Act was that property was to be appraised at actual value.

The Assessment Act required land and improvements to be assessed at actual value but putting this into effect was another matter. Most residential properties had enjoyed restricted assessments for several years and were assessed at levels far below commercial and industrial properties. The shift in the tax burden to residential properties would have been very significant under the new system. Therefore, in late November, 1974 an amendment (Bill 170, The Assessment Amendment Act, 1974) to the Assessment Act was introduced. The effect of the amendment was to freeze assessments at the 1974 levels, except where there was a physical change, new construction or a zoning change.

In 1975 the provincial government appointed a Commission of Inquiry on Property Assessment and Taxation. The Commission was directed to study the implications of setting up an assessment system based on actual value, and

all aspects of real property taxation procedures. In 1976 the Commission presented its findings, known as the McMath Report. The report made 75 recommendations with regard to assessment and taxation, many of which were later incorporated into legislation.

The assessment freeze remained in effect for the 1975, 1976 and 1977 assessment rolls. This proved to be a mixed blessing. On the one hand, it provided an opportunity for the newly established Assessment Authority to become organized and it enabled assessors to re-inventory and revalue properties which, in many jurisdictions, was long overdue. On the other hand, this three-year freeze while market values increased allowed the level of assessment to drop even lower and inequities became more widespread. In many areas the various restrictions that began in 1967, coupled with the complete freeze on assessment increases in the three years preceding the 1978 assessment year, had left residential assessments at an extremely low level. In at least one school district the average residential assessment was less than 12 per cent of actual value. The land component of the same property was at an even lower level. Commercial, industrial and some other classes of property, on the other hand, were much closer to 50 per cent of actual value.

To overcome this problem, legislation was introduced which gave the government the power to define classes of property by type or use. The same legislation enabled the government each year to fix the percentage of actual value at which each class of property was to be assessed for the succeeding year.

The Assessment Act made it clear that the assessors' mandate was to determine actual value. For the first time, actual value appeared on the assessment rolls and

notices right beside the assessed value. In the years when there had been ceilings on assessment increases, the assessed value had become an almost meaningless figure. It was almost impossible to explain to taxpayers how the figure was derived. But now the public could readily relate to the actual value figure. The assessed value was merely the result of a simple mathematical calculation. The public immediately adopted actual value as the significant figure. Any appeals on value were conducted on an actual value basis, not on an assessed value basis. The importance of accurate and equitable valuations became obvious because the public could now easily compare the value placed on their property with the market evidence. They could also compare the value of their property with the value of their neighbors' property.

Government assessment levels assigned to each property class were close to a provincial average each year. This prevented undue shifts in the tax burden but the system was not flexible enough. Because of swings in the real estate market, assessment levels which might be appropriate in one part of the province might result in large tax shifts in another.

The 1980's

In November, 1982 the Minister of Finance announced the government had approved in principle a variable tax rate system. This was designed to allow municipal councils to set different tax rates for each of the eight classes of property. The tax rate was levied on actual value. This ended the system of applying a common rate against the assessed value of all classes of property. This move had been advocated by the municipalities for some time.

In 1983, Bill No. 7 and Bill No. 12, 1983, **Property Tax Reform Acts** (No. 1) and (No. 2) respectively, were enacted to introduce a variable tax rate system. The first bill enabled municipalities to levy general purpose taxes on the actual value of land and improvements and to set a tax rate for each class of property. The second Act extended this system for school, hospital and other tax purposes. Under the variable tax rate system, the entries on most assessment notices sent to property owners are simpler, with the same figure shown for actual value as for assessed value. The taxable value is different only where there is an exemption from taxation.

Further legislative changes, as a result of Bills No. 7 and No. 12, affected the 1984 assessment rolls. A new $10,000 exemption from taxation for industrial and commercial improvements, and an increase in the machinery and equipment exemption from $1,500 of taxable value to $50,000 of taxable value, were introduced.

In the fall of 1984, the Minister of Finance, with support from ministry officials, conducted a review of the impact of taxation on economic development. The government was seeking a concensus on measures for simplifying taxation and encouraging economic growth, economic diversity and job creation.

Consultative meetings were held in various locations around the province to seek input from those interested in or affected by taxation. As a result of the consultation, the provincial government, in the next two years, introduced a limited number of reforms to the provincial tax system. Major changes in assessment legislation also resulted.

The **Assessment Amendment Act, 1984** became law on May 11. It contained several significant changes to the assessment cycle and processes.

a. The long established principle of reassessing all properties annually was abandoned in favor of every second year. Two-year, or biennial, reassessment involves preparing a new assessment roll in every even-numbered year for use for taxation purposes in the following two years. In odd-numbered years, a revised assessment roll is prepared merely to record those properties where there has been a physical or zoning change. Typical entries would record changes in ownership information and changes in value due to new construction or demolition.

   Producing the revised assessment roll in odd-numbered years requires less staff and reduces expenses. The number of appeals in odd-numbered years is also greatly reduced. Economies made by the need to reduce staff as a result of restraint measures have not damaged the quality of the assessment rolls.

b. Previously, assessment rolls had to be completed by December 31 in each year, and assessments had to reflect actual value as of that same date. September 30 was substituted for December 31 as the date by which the assessment roll must be completed and the valuation date was changed from December 31 to the preceding July 1.

   The need to set a valuation date in advance of the date when the roll had to be completed had long been recognized. It is not practical to prepare assessment rolls and to value all properties in the province as of the same date. A further benefit has been to provide a three-month extension to taxing jurisdictions to prepare their budgets based on authenticated assessment roll information.

Legislative amendments in 1985 had little impact on the Assessment Authority. The most significant change affected assessments on machinery and equipment for business and commercial undertakings, which were eliminated from future assessment rolls in a two-step process. For the 1986 Revised Assessment Roll, existing machinery continued to be assessed, adjusted if it had been demolished or removed since the previous year's roll; but no additions or new machinery could be assessed. For the 1987 roll, which was produced in 1986, all machinery (Class 4, machinery and equipment) was removed from the assessment roll.

The introduction of Bill No. 67 in 1987, amending the Assessment Amendment Act, created a separate property class for major industrial properties. This enabled them all to be assessed according to a simple, stable method of cost minus straight line depreciation. This method returns valuation of these industrial properties to a cost-based system firmly rooted in the actual dollars being spent by industry to create the wealth required to conduct their industrial activity.

During 1988, there were more amendments to the major industrial legislation introduced in 1987.

III.
FORMS OF TAXATION

III. FORMS OF TAXATION

Modern taxation in British Columbia is a mixture of different types of taxes that have evolved through history. Ideally, they are a blend that assures overall fairness.

(1) INCOME TAX takes a percentage of each person's annual income for use by the federal and provincial governments.

(2) SALES/CONSUMER/MANUFACTURING TAXES also provide revenues for the federal and provincial governments.

(3) SEVERANCE TAXES such as stumpage for trees cut, mineral royalties and water rights are derived from the Crown's root ownership of all lands. Severance tax revenues go mainly to the provincial government.

(4) REAL PROPERTY TAXES provide revenue to local government and, to a lesser degree, the provincial government.

Of these four types of taxation, the first three - income, sales and severance - are cyclical, or sensitive, taxation. That means the amount of revenue received by the government through these forms of taxation is governed by the individual. If the individual ceases to earn income he or she no longer pays income tax. Similarly, if he or she chooses not to use resources for which royalties or stumpage exist, that source of revenue will be cut. For example, if trees are not harvested, stumpage is not paid. When individuals choose not to purchase consumer goods, there is a direct loss to the government in the form of sales taxes.

On the other hand, real property taxation forms a stable base for revenues. It provides the revenue to local governments to provide the services necessary for the well

being of the community. The need for these services does not stop because an individual loses a job or becomes poor. The services are universal and society has a duty to provide these for everyone regardless of their position. The services include hospitals, schools, waste removal and police.

The provision of local services by the community for its own people can be traced back to the feudal responsibility of the lord for the people within his land holdings. It can also be traced to the responsibility which developed later at the parishes for their own poor. Historically, these were services provided by the wealthy for their own benefit and for that of the poor. Owning real property, from early in history, has been a stable indication of the wealth of the holder.

The basic change over time has been to shift the burden from the shoulders of a few barons to a system based on many small landowners who share the responsibility for the well being of society.

Elected local government bodies must justify any taxation imposed on landowners. There is a system of checks and balances now in place to ensure the burden on any individual taxpayer is not excessive. But the historical basis of the landowner's responsibility to provide for the needs of the community continues to apply today.

IV.
PRINCIPLES OF AN IDEAL GENERAL TAXATION SYSTEM

IV. PRINCIPLES OF AN IDEAL GENERAL TAXATION SYSTEM

There are several key ingredients in an ideal system of taxation. The system should be understandable. It should be stable and forecastable. It should be fair, equitable and progressive. There should be an administrative structure in place to apply and collect taxes, and there should be accountability.

Understandability

An ideal taxation system should be easily understood.

Stability

1. An ideal taxation system should produce revenue in a reliable manner. That is, the revenue it generates should be stable, certain and adequate.

2. An ideal taxation system should not be subject to unforeseen fluctuations in the revenue generated.

3. An ideal taxation system should have diverse revenue sources over broad bases.

Forecastability

The taxing authority should be able to predict what revenues it will receive from its taxation system.

Fairness

A fair taxation system achieves several goals:

1. It shields genuine subsistence income from taxation.
2. It is not regressive.
3. Exemptions are designed fairly.

Equity

1. An ideal taxation system should impose approximately the same tax burden on all households earning the same income.

2. An ideal taxation system should equalize resources available to local governments so they are able to provide adequate services.

Progressivity

A taxation system is progressive if taxes increase with income. The progressivity or regressivity of any particular tax is not of great importance. What is significant is how the burden of the entire tax system is distributed.

Administrative structure

An ideal taxation system requires a structure to apply and collect the tax.

1. It should be made up of elements that work well together as a logical system. It should mesh well with local and provincial financial systems.

2. It should raise revenue efficiently, be simple to administer, and cost taxpayers as little as possible.

3. It should be administered professionally and uniformly, both throughout the province and within individual jurisdictions. Poor tax administration results in inequities.

Accountability

An ideal taxation system should stress accountability. Tax policy should be very clear. Hidden tax increases should be avoided.

V.
PRINCIPLES OF AN IDEAL REAL PROPERTY TAXATION SYSTEM

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Property tax is a general term used to describe any tax applied to the value of land or to the value of improvements to land, such as buildings. It may also be applied to personal property, such as cars and boats.

Property tax is a tax on assets, or wealth, as opposed to a tax on income or consumption. This type of assets tax is used in many countries including Canada, the United States, the United Kingdom, Australia and New Zealand. However, the definition of property and the methods of valuing property vary significantly among jurisdictions.

Property tax is only one component of a larger taxation system. In its simplest form, a property tax is the product of a single tax rate applied to the market value of each parcel of property within a jurisdiction. In practice, however, there are many variations tied to different theories and policies on the fairest and most efficient way of levying property tax.

The principles outlined for an ideal general taxation system apply, except for 'progressivity'. Real property taxation is neither progressive nor regressive. It is proportional to value, before the Home Owner Grant is applied.

Understandability

An ideal real property taxation system should be easily understood by administrator and taxpayer alike even though it is diversified over a broad range of properties.

Fairness

In addition to the criteria outlined for an ideal

general taxation system, an ideal real property taxation system should allow for appeals, where a taxpayer can challenge the fairness of the property valuation.

Administrative structure

In addition to the components listed for an ideal taxation system, an ideal real property taxation system needs a sound process to determine the values of the properties which are to be taxed.

Accountability

To enhance accountability, reasons for proposed changes in property tax should be explained to property owners. An ideal real property taxation system requires that assessments of property be based on full value, not a fraction of value. Fractional assessments are confusing and detract from accountability.

VI.
ALTERNATIVES TO THE IDEAL

A. TAXATION SYSTEMS

At this stage, it is appropriate to discuss several types of property taxation systems and their merits and failings. Each is founded on a different philosophy and each is less satisfactory as it diverges from real market value as the basis for property assessment.

Site value taxation

A group of 18th century economists in France - the physiocrats - first put forward the idea that if a tax were levied on land there would follow wide-scale benefits besides revenue.

Henry George is usually given credit for the modern version of the physiocrats' theory. His theory was to exempt improvements entirely from assessment. The property tax would be limited to the land without buildings. That is where the system gets its name, site valuation.

Advocates of this form of taxation believe it promotes urban development. Site value taxation has been analysed by a variety of expert bodies in Canada and elsewhere. The consensus is that site value taxation is inferior to real property taxation.

Site value taxation narrows the base for taxation. It removes part of the weight of taxation from industrial and commercial taxpayers. But it adds to the weight of taxation on farming, an industry that already needs government subsidies.

Site value taxation would distort the weight of taxation within each principal taxpayer classification. Under the present British Columbia system, the tax on owner-occupants of residential property bears a direct and definable relationship to the value of the property. Such a relationship would cease with site value taxation.

Under the present system, the tax tends to be proportional, but the weight on any taxpayer is governed by how much he or she spends on shelter.

Owner-occupants of business properties would undergo a similar change. The less intensively their land is built upon, the higher the burden of tax in relation to the value of the whole property. Land-use patterns that have developed under the existing system could not be changed overnight. The effect of switching to site value taxation would differ widely from one property owner to another.

Proposition 13

In 1978, the voters in California adopted Proposition 13, or Article XIII A of the State Constitution. It made sweeping changes to the property tax structure throughout the state. The changes were the greatest ever experienced in the 140-year history of property tax in California. There were major shifts in the funding available to local government from this most important revenue source. The county assessors' office experienced a major shift in workload and workflow. The whole system changed from one based on market value to one based on legality.

Proposition 13 has several important features.

1. All real property values were rolled back to their 1975 level. Because Proposition 13 dealt only with real property in the form of land and improvements, valuation of personal property such as machinery, equipment and furniture was continued at full market value as required under other provisions of the Constitution.

2. Proposition 13 stipulates that real property must be reappraised at its full market value when it is sold.

3. The values of properties not sold during the year are adjusted for inflation. Inflation is limited to the California Consumer Price Index. There is a limit of two per cent on assessment increases but there is no limit on decreases.

4. All real property newly built is valued at market value once construction is finished.

5. Proposition 13 effectively reduced the tax rate on property from about 2.65 per cent statewide to a maximum of one per cent of taxable value, plus an amount necessary to retire existing voter-approved debts.

6. It also prevented the addition of new bonds or other debts to the property tax rate even if approved by the voters.

After adopting Proposition 13, the California Legislature passed implementing legislation to achieve several objectives.

1. Ownership transfers between husbands and wives were made exempt from the change in ownership regulations.

2. New long-term leases were regarded as changes in ownership for the purposes of reassessment.

3. Guidelines were adopted to help determine when construction qualifies as new construction and subject to appraisal.

4. Certain classes of property were excluded from the value-restricting feature of the initiative. The exclusions applied to state-assessed utilities, open-space farmland, timberlands, and taxable municipally-owned properties.

5. It distributed property tax revenues among the many taxing jurisdictions in each county.

6. In the case of legal entities, such as corporations and partnerships, a reappraisal would be done if there was a change in control. Stock acquisition, mergers or changes in partners could all constitute change in control, requiring a reappraisal.

Starting in November, 1978 a series of legislative amendments to the original initiative were adopted. The most significant had to do with decline in value and implementation of the supplemental roll. The assessor is required to recognize declines in value when the current market value drops below the base year adjusted for inflation. Introduction of the supplemental roll has had the effect of placing the assessment cycle on a year-round basis, rather than an annual cycle.

Proposition 13 is regressive. Its main disadvantage is that major inequities in property values are occurring. Given that properties were rolled back to their 1975 levels and that only properties experiencing a change

in ownership are reappraised at full market value, then two similar properties in the same community could have very different assessed values.

Adopting Proposition 13 has had a major impact on the assessment function in the State of California. Appraisal, valuation, appeal and administration functions have become more complex and less cost effective. The process is now more prone to errors in inventory gathering and assessment and to inequities in valuation.

Levying property taxes on the basis of services consumed or provided

Levying property taxes on the basis of services consumed is an inferior method of taxation. There are several reasons for this.

1. It is difficult to identify and quantify all the services provided to an individual property owner.

2. It is difficult to determine unit costs of all the services. What is fire or police protection worth to each property, for example?

3. Inequities arise. A tax based on services consumed would generate a poll tax type of system.

4. The principles of the ideal taxation system - understandability, fairness and accountability - would also be jeopardized.

Poll Tax: Great Britain

There has been a good deal of criticism in Great Britain in recent years of the way the domestic rating system - that is, the residential real property taxation system - operates. The system has provided an acceptable method of raising revenue for local services since 1601.

Each rating or assessing authority in Great Britain sets a rate, expressed as a number of pence per pound. This is applied to the rateable, or taxable, value of each property. The rateable value is based on the annual rental value of the property. In England and Wales that rateable value is assessed by the valuation officer employed by the Inland Revenue and who is independent of the local authority. In Scotland, the assessment is done by assessors who, though employed by local authorities, are answerable only to the courts.

There have been several criticisms of the domestic rating system.

1. The burden is unfairly distributed among different types of household and between people occupying property of a similar kind in different areas.

2. Domestic rates bear too little relationship to ability to pay or to the use that is made of local government services. For example, earners who are not householders do not contribute directly to domestic rates.

The British government in the late 1970's commissioned a study to consider ways these criticisms could be met. Various substitutes for domestic ratings were analysed. The alternatives included local sales tax, local income tax and

a poll tax. In 1981, a Green Paper was published, entitled "Alternatives to Domestic Rates". The document concluded there is really no single alternative to domestic rates. A poll tax could not be used on its own as a complete replacement for domestic rates. A poll tax should be used only to supplement a major revenue-raising tax. The Green Paper indicated that the only alternative might be a combination of best options: a poll tax on all adults, a local sales tax and a local income tax.

In the Green Paper, poll tax was defined as a fixed annual charge levied on individuals living in a local authority area as a contribution to the cost of providing local services.

With the poll tax, there are difficulties caused by evasion and people moving.

Administration costs could equal or exceed those of domestic rating, since mobile individuals are harder to trace than occupiers of fixed property.

Poll Tax: North America

In North America, too, it has sometimes been suggested that an annual poll tax be adopted to ease the property owner's burden for local taxes. The poll tax has also been supported as a useful form of supplementary income for local governments. The first argument has been rejected because tenants contribute to real property taxes in the rents they pay to their landlords.

The right to levy a local poll tax was abolished in British Columbia in 1957 but it continued in Ontario and New Brunswick, where it was put under review by committees of inquiry. After noting its main defects - regressiveness,

widespread evasion, discrimination, unusual difficulties in collection, and general resentment - the Ontario committee called for the abolition of the tax in these words:

> "It is ... an anachronism in modern society. We believe that the province should abolish the poll tax as a local revenue source..."

In New Brunswick, the tax had been used more widely and the provincial commission denounced it even more forcibly:

> "This is the first tax which should be rejected by all levels of government...The poll, as a form of taxation, has been almost completely rejected by much of the western world."

B. ASSESSMENT ISSUES

Assessment averaging

Assessment averaging is a method of spreading assessment changes over a number of years. Advocates of the system defend it by arguing that it provides a cushion to certain taxpayers during periods of abnormal increases in property values, as in a rising real estate market. If properties within an area increase in value at the same rate, then under this system there is no difference in property taxes.

However, assessment averaging causes a shift in taxes when the value of one property rises faster than another. It also creates shifts in taxes when one whole area rises at a faster rate than another area.

Under an assessment averaging system, the owner whose property rises faster in actual value ends up paying less tax than the owner of a property rising more slowly in actual value.

Under the current actual value system, the owner whose property is rising faster in value pays more property tax.

Another inequity exists in assessment averaging. Improvements made to one property, instead of resulting in higher property taxes to the owner of the improved property, cause other property owners to pay some of the increase. Under an actual value system, the property owner who made the improvements pays the resulting additional taxes.

Frequency of revaluation: The annual roll

In British Columbia, properties are revalued every second year.

It has been suggested that the province reassess properties annually. An annual assessment roll could certainly be produced. Indeed, British Columbia had such a system in the past. It was dropped in favor of the two-year system as a way of cutting costs.

An annual roll results in property owners experiencing small changes - both increases and decreases - once a year rather than larger value movements once every two years. Put another way, an annual assessment roll results in more gradual changes in assessments.

Owners of properties experiencing rapid gains in actual value over a short period pay more property taxes over the same period with an annual assessment roll. Owners of properties not enjoying significant gains in actual value over the same period pay less property tax with an annual assessment roll.

Limiting or capping individual property value increases or decreases

It has been suggested that owners of residential property be protected from increases in assessed values caused by market forces. This is a version of the so-called Proposition 13 option.

Attempts to prevent sudden assessment increases, shifts in tax burden, and tax increases have been unsuccessful. Limiting the increase in assessment to five per cent in any one year was tried in British Columbia in 1966. This was later changed to 10 per cent. The limits were brought about

by amendments to the Assessment Equalization Act. These attempts at capping were doomed because they merely created inequities between classes of properties, even within a class of property. Any real relationship to actual value was lost.

Capping assessment increases distorts the principle of uniformity by dropping actual value as the basis for assessment. Capping individual property assessments has an even greater distorting effect for properties which have experienced a substantial increase in market value. Such properties are assessed and taxed less than is equitable. Their less fortunate neighbors, with smaller market value increases, suffer an added burden of taxes.

Capping assessment increases overall exaggerates the tax rate increases needed to raise required revenues. Capping not only creates inequities between market value and assessed value, but reduces understandability, forecastability and stability of the assessment function. Ultimately, such a system of capping would damage the property tax system in British Columbia.

Other basis of determining real property assessment

It has been suggested that real property assessment and taxation should be based on a front foot or area basis, using some formula that recognizes both land and improvements.

Implementation of such a basis of assessment would detract from an ideal system by reducing understandability, accountability, equity and fairness.

Using such an assessment method would be inequitable since a direct correlation between actual value and length

(front footage) or areas is not feasible. For example, if two lots are side-by-side, one with 150 feet of frontage and the other 100 feet of frontage, the larger lot may not necessarily be worth 50 per cent more.

Assessing property, on the land characteristics only, does not reflect value or quality of improvements. The disadvantages of site value taxation apply.

The other major problem using front footage as a basis of assessing, is that many lots are irregular in shape. Determining a front footage assessment of any non-rectangular lot would be a difficult calculation.

VII.
THE REAL PROPERTY TAXATION SYSTEM IN BRITISH COLUMBIA

VII. THE REAL PROPERTY TAXATION SYSTEM IN BRITISH COLUMBIA

In British Columbia, property tax is used to generate revenue to support local services and public schools. It is the main source of revenue for these purposes. Grants from the provincial government are the other important source of money to pay for local services and schools.

The real property taxation system in British Columbia has six main components.

1. Administration
2. Assessment base
3. Tax base
4. Taxation rates
5. Exemptions and reliefs
6. Appeal process

Administration

In British Columbia, the real property taxation system is administered by a number of authorities.

a. The Provincial government exercises the legislative function and can amend the governing statutes on taxation and assessment.

b. The British Columbia Assessment Authority records ownership and property details annually, values and classifies all properties in the province, produces the assessment roll, mails the assessment notices and defends the assessment information before the Courts of Revision and Assessment Appeal Board.

c. Municipalities and Collection Districts collect their own taxes and, to eliminate duplicate effort, collect nearly all the taxes levied against property within their boundaries on behalf of other bodies such as school and hospital boards, the Assessment Authority, and regional districts.

The Constitution Act provides the provinces with jurisdiction over property, municipal and other local institutions, education, and generally all matters of a merely local and private nature. The provinces also have the power to levy direct taxation to raise revenues for provincial purposes.

The federal government has much wider taxation powers. At the time of Confederation, when the division of powers between the federal and provincial governments was established, the principal source of local revenue was the direct tax on property. Even then, this tax was being levied to provide local services. Real property taxes have continued to be used for such purposes, and they have remained exclusively a provincial responsibility.

The Constitution Act clearly establishes the autonomy of the provinces in matters under their jurisdiction. Municipalities and other units of local government do not enjoy the same autonomy.

The division of powers established in the Constitution Act did not anticipate the major role now played by municipalities and regional districts. Local authorities - including municipalities, school districts and regional districts - remain creatures of provincial legislation. The provincial government has the constitutional right to create, modify or abolish these local authorities.

The power to levy a real property tax, the tax base, the basis of assessment, and the provisions for exemptions and reliefs, are all set out in provincial statutes. Local

authorities must operate the system of taxation accordingly. The main source of discretion on the revenue is in establishing the rate for general tax purposes. Local authorities have very limited autonomy in administering the real property tax.

Real property taxation is often poorly understood. There is no single statute in British Columbia which provides a comprehensive explanation of the real property tax. Relevant legislation is to be found in the **Assessment Act**, formerly the **Assessment Equalization Act**; the **Municipal Act**; the **Public Schools Act**; and the **Hospital District Act**. For the City of Vancouver, the **Vancouver Charter** takes the place of the **Municipal Act**. In the case of unorganized territory, the **Taxation (Rural Area) Act** establishes the system of real property taxation. There are also many other statutes in British Columbia that make reference to the real property taxation system.

Assessment base

The fundamental principle underlying the **Assessment Act** is that land and improvements must be valued at their actual value, that is, fair market value. The price which would be agreed on between a willing buyer and a willing seller bargaining at arm's length is the benchmark.

In British Columbia, real property assessment is based on the value of land and improvements. The taxable value of the lands and improvements is either actual value or a portion of it. The main purpose of the **Assessment Act** is to provide an equitable base on which to apply taxes for general purposes, schools, hospitals and other purposes.

In British Columbia, property is assessed by the B.C. Assessment Authority every even-numbered year.

Actual values of all properties are separated by type or use into classes prescribed by the provincial government. The classes are residential, utility, unmanaged forest, managed forest, major industry, light industry, business/ other, recreation/non-profit, and farm.

Tax base

There are three tax bases: General Purposes, Schools Purposes, and Hospital and Other Purposes. The main taxing authorities using these tax bases are:

General Purposes:

Municipalities
Surveyor of Taxes (rural areas)

School Purposes:

Ministry of Education (non-residential property)
School Districts (residential property)

Hospital and Other Purposes:

Ministry of Health
Municipal Finance Authority
Regional Districts, including Specified (Regional Areas), Defined Areas, Local Community Areas
Improvement Districts
Local Service Areas
Library Districts
Islands Trust
British Columbia Assessment Authority
British Columbia Transit (non-residential property)

The main differences in the three tax bases are the result of legislation relating to British Columbia Hydro and Power Authority, and the application of exemptions.

Taxable assessed value is important because it is the base amount which is multiplied by the tax rate to give the amount of tax payable. The assessed value is the actual value of the property, minus any exemptions that are applicable. It can be expressed as an equation:

(ACTUAL VALUE) - (EXEMPTIONS) = TAXABLE ASSESSED VALUE

The taxable assessed value is determined separately for General, Schools and Hospitals and Other Purposes because each has a different set of exemptions.

All classes of property are assessed for school tax purposes. Assessments for Hospitals and Other Purposes are the same as for Schools, except that properties owned by British Columbia Hydro and Power Authority are not taxed for that purpose. Before exemptions are applied, assessed values for general purposes in municipalities and rural areas are the same as the assessed values for hospitals and other purposes.

Rate of Taxation

A variable tax rate system, where different rates can be set by the taxing authority for each class of property, is used for all property tax levies. The tax rate determines how much total tax will be distributed to each property class. Tax rates are expressed in dollars per $1,000 of the total value. Distributing the tax burden among classes of property is controlled by the taxing authorities. That is, municipal and provincial authorities set tax rates for each class of property to generate the level of revenues needed.

Exemptions and relief

A. Exemptions

The British Columbia tax system has been designed to take into account the distribution of the burden of tax between different types of taxpayers. Most of the provisions for the exemptions are contained in the Municipal Act and the Vancouver Charter. Other exemptions and reliefs are found in the Public Schools Act, the Assessment Act, and the Taxation (Rural Area) Act.

Some properties are exempt by the definition of improvements, by the type of property (i.e., farmland) or according to the type of ownership. Exemptions because of ownership include properties owned by the Crown, both federal and provincial, and by municipalities. In the case of federal and provincial properties, grants are generally paid in lieu of taxes.

The exemptions permitted under the various statutes are numerous.

- Commercial and industrial improvements (Classes 4, 5 and 6) are granted an exemption of $10,000 on assessed value.

- An exemption of 50 per cent of the assessed value is permitted on farmland and some other land in the Agricultural Land Reserve for school and hospital purposes.

- An exemption of $50,000 of the assessed value of farm outbuildings in municipalities is permitted. In rural areas, all farm buildings and the farmer's dwelling are exempt from general taxation.

- Tourist accommodation receives a 50% exemption up to a maximum of $150,000.

- Property owned by B.C. Hydro and Power Authority is taxable only for school purposes. However, B.C. Hydro pays annual grants in lieu of general, local improvement and regional district taxes.

- Church property is exempt.

- Land and improvements, or portions of either, used to control or prevent pollution are exempt.

B. Relief programs

Relief programs - sometimes called circuit breakers - now in use in British Columbia include Home Owner Grants and property tax deferments.

Home Owner Grants

British Columbia home owners may be entitled to a property tax credit. An additional grant is also available to seniors aged 65 and older, disabled persons and veterans.

The Home Owner Grant is designed to offset the tax impact on owner-occupiers of residential properties living on fixed incomes. The grants have been available since 1957. The first grant was provided in The Provincial Home Owner Grant Act. The amount and form of this relief has varied over the years. It is currently up to $380 ($630 for seniors and handicapped persons).

Land Tax Deferment Act

To ease the burden of tax on residential property owners, a statute was introduced in 1974 providing for

deferment of real property taxes. Under this Act, an owner is not relieved of the taxes but may defer them.

Summary

Net real property tax payable in British Columbia is determined as follows:

$$(\text{ACTUAL VALUE}) - (\text{EXEMPTIONS}) = (\text{TAXABLE ASSESSED VALUE})$$

$$\left(\begin{array}{c}\text{TAXABLE}\\ \text{ASSESSED VALUE}\end{array}\right) \times \left(\begin{array}{c}\text{TAX}\\ \text{RATE}\end{array}\right) = (\text{GROSS REAL PROPERTY TAX})$$

$$\left(\begin{array}{c}\text{GROSS REAL}\\ \text{PROPERTY TAX}\end{array}\right) - \left(\begin{array}{c}\text{CIRCUIT}\\ \text{BREAKERS}\end{array}\right) = \left(\begin{array}{c}\text{NET REAL PROPERTY}\\ \text{TAX PAYABLE}\end{array}\right)$$

Appeal process

Assessments established by the British Columbia Assessment Authority are subject to an extensive appeal procedure. This ensures the fairest possible treatment of taxpayers.

A taxpayer in British Columbia has three potential sources of appeal. In the first instance, an appeal may be made to the Court of Revision. The Court of Revision is appointed by the provincial government to hear appeals on assessment in all municipalities and rural areas. The government also may appoint special Courts of Revision, made up of persons experienced in agriculture, to hear complaints related to farmlands. If a taxpayer is dissatisfied with the decision of the Court of Revision, he or she can file an appeal with the Assessment Appeal Board.

The government appoints the Assessment Appeal Board with the authority only to hear appeals from the Courts of Revision and may order a reassessment in all or part of any municipality or rural area.

Anyone affected by a decision of the Assessment Appeal Board has the right to appeal to the Supreme Court, but this appeal can be on a question of law only. The Board may submit a question of law, in the form of a stated case, to the Supreme Court at any time.

VIII.
THE ROLE OF THE B.C. ASSESSMENT AUTHORITY AS PART OF THE REAL PROPERTY TAXATION SYSTEM

VIII. THE ROLE OF THE B.C. ASSESSMENT AUTHORITY AS PART OF THE REAL PROPERTY TAXATION SYSTEM

Taxing jurisdictions in B.C. rely on the Assessment Authority to provide them with accurate property and value information on which to base their taxation rates.

The purpose of the Authority is set out in Section 8 of the Assessment Authority Act. It is to "establish and maintain assessments that are uniform in the province in accordance with the Assessment Act."

The Assessment Act requires the assessor, in Section 25(2) of the Act, to determine the actual value of land and improvements and to enter that actual value on the assessment roll. This assessment roll, when completed, is provided to the taxing jurisdictions. They use it to determine their tax rates.

The Assessment Authority works to produce accurate, consistent assessments of property at its full actual value. These values are produced by professional appraisal staff. They use data provided by the Land Titles Office, taxpayers, on-site investigation, and detailed research. The work of the Assessment Authority is subject to checks and balances in the form of the legislative appeal procedures and the ability to make supplementary assessments of properties where errors in valuation have been discovered.

The independence of the Assessment Authority allows it to function as a safety valve between the taxpayer and the tax collector. This helps to ensure the taxpayer is being treated equitably.

The Assessment Authority is responsible by legislation for ensuring that the basis on which property taxes are assessed is uniform, legal and consistent. To carry out this mandate, the Authority has been granted quasi-judicial powers in the Assessment Act. These powers are open to review by the Courts of Revision, Assessment Appeal Boards, and finally the court system. This ensures that the

Assessment Authority is accountable to the taxpayer and to taxing authorities.

OTHER ASSESSMENT SYSTEMS

Canadian assessment administrations

Control over the assessment function varies throughout Canada. Most provincial governments, or independent bodies reporting to a provincial legislature, assume control. In Saskatchewan, Manitoba and Quebec, total central control does not exist. Major cities in those provinces operate independent assessment administrations.

Major reappraisal programs are carried out primarily in-house throughout Canada. Physical inventory collection is contracted out in some cities.

Reassessment cycles, that is, the currency of actual value rolls, vary throughout Canada. While valuation changes are undertaken in B.C. every two years, Saskatchewan operates on a seven-year cycle. There are annual reassessment cycles in Quebec and Ontario.

Throughout Canada, the objective is to provide assessment values based on current market values. Some provincial assessment jurisdictions are closer to achieving this goal than others.

The degree of computerization used by assessment agencies varies across Canada.

Compared with other Canadian assessment administrations, the British Columbia Assessment Authority is the most advanced in several areas:

1. The B.C. Assessment Authority leads in the use of sophisticated computer systems.

2. It has more centralized control over the assessment function than most other Canadian assessment bodies exercise.

3. The organization - including head office and field operations - is more efficiently laid out than in most other Canadian assessment organizations.

4. The two-year roll cycle and current actual value approach to valuation compare favorably with the rest of Canada.

5. The working level staffing structure, job categories and salaries are comparable to other Canadian assessment organizations.

Examples of other systems help illustrate how effectively and efficiently the assessment function is carried out in British Columbia.

Ontario

The assessment function in Ontario is co-ordinated through the Property Assessment Program of the Ministry of Revenue.

Municipalities are responsible for implementing the assessment function at the local level. Because all municipalities are autonomous, they initiate a reassessment by submitting a request to the ministry. When the reassessment program is complete, it is still the option of the municipality not to put the revised roll into effect. Centralized provincial control does not exist.

Over the years, many Ontario municipalities have gone to an actual value system. However, this is not the case throughout the province. As a result, municipalities can still be using a very old base for their assessments. The City of Toronto is the classic example. Assessments there are at a 1941 level, which has created many and varied inequities. In this case, adopting a new, updated revaluation would undoubtedly cause serious political repercussions.

City of Winnipeg

The City of Winnipeg administers its own assessment function. It has its own assessment department. The assessment base was so old that inequities were brought before the Supreme Court of Manitoba. The court ordered that a reassessment be done at actual value to restore fairness and equity. The court also set a deadline for completion of the report.

Saskatchewan

The British Columbia Assessment Authority is being used as a role model for other provinces trying to improve their assessment functions.

For example, the Saskatchewan Assessment Management Agency (SAMA) was established on March 1, 1987 under the authority of the Assessment Management Agency Act and has the central responsibility for the valuation of all properties, businesses, equipment and special franchises throughout the province. The only exceptions apply to those in the cities of Moose Jaw, Prince Albert, Regina and Saskatoon.

Like the British Columbia Assessment Authority, the Saskatchewan Assessment Management Agency is fully independent. It is also managed by a board of directors; funded by the provincial government and the municipalities; and it has a similar regional office structure.

The major flaw in the Saskatchewan system is that the four largest cities are not a part of the SAMA structure. Uniform property assessments province-wide cannot be assured.

United States assessment administrations

Throughout the United States, property assessment is the responsibility of the individual states. The degree of state control over the function varies from state-to-state.

In most states where there is some degree of central control, it extends to the overall administration and regulation of the function. This includes responsibility for developing assessment policies, administrative regulations and certification standards for local assessors and appraisers. The actual responsibility for assessing properties and establishing values rests at the county, town or city level.

In many states, local assessors are elected. Education and job experience requirements for assessors and appraisers vary from state-to-state and even within states.

Local assessment jurisdictions in many states rely on private mass appraisal firms to carry out their major reappraisal programs. Several states with some central control are beginning to conduct their reappraisal programs in-house due to the high costs of using commercial firms. Per parcel costs, using private firms, are more than double the current British Columbia Assessment Authority cost.

Few states have complete revaluations every two years. Some have revaluation cycles as long as 16 years.

Funding for the assessment function is primarily at the local level.

IX.
THE REAL PROPERTY TAXATION SYSTEM IN BRITISH COLUMBIA - A COMPARISON WITH THE IDEAL

IX. THE REAL PROPERTY TAXATION SYSTEM IN BRITISH COLUMBIA - A COMPARISON WITH THE IDEAL

Understandability

Adopting the principle of fair market value has done a great deal to help taxpayers understand British Columbia's system of property assessment.

The Assessment Authority has recognized that understandability is a key element to ensuring that the real property tax system is accepted by property owners as a reasonable and cost-efficient vehicle for generating revenue.

Better communications with property owners and local and provincial governments is an important corporate goal of the British Columbia Assessment Authority. In the fall of 1988, the Assessment Authority launched an extensive public relations campaign to improve awareness and understanding of the functions of the Authority, with particular emphasis on the quality of assessments being produced and the operational efficiencies.

Stability

The real property tax system in British Columbia meets all of the criteria of an ideal taxation system.

In British Columbia, the overall taxation system is made up of diversified sources. Real property tax is just one component. Other sources of revenue include sales tax, excise taxes and income tax.

British Columbia's diversified tax base makes it possible to moderate the tax burden on any single source. Every tax has some undesirable effects which are magnified when rates are high. British Columbia's diversity of taxes helps ensure that any biases associated with a particular tax are minimized or cancelled out.

It enhances fairness. Diversity also means that fluctuations and shifts in the economy do not have as great an impact on tax revenues as in the case of narrowly based systems of taxation.

Forcastability

Revenues generated by the real property tax system in British Columbia are forecastable.

Accurate revenue forecasting of real property tax depends on accurate, consistent and up-to-date property assessment information on which to apply rates of taxation.

The Assessment Authority plays a major role in providing sound property assessment information and ensures accuracy of information by ensuring property appraisals are carried out by highly-trained professional appraisers and assessors.

Assessments of properties are generally based on full market value rather than a fraction of market value. Where no reliable market measure is available, prescribed methodologies are applied to arrive at a simulated market value.

The Assessment Authority ensures consistency of property assessment information by exercising responsibility for the entire assessment function throughout the province.

Consistency is enhanced because the Assessment Authority applies uniform appraisal, assessment and valuation methods province-wide.

Property information is updated continuously and all property is revalued every second year.

Fairness

The British Columbia government has developed programs and tax relief measures which have helped property owners whose incomes are low in relation to their property taxes.

The real property taxation system possesses all the fairness criteria of an ideal revenue and real property tax system.

In British Columbia, several safety valves ensure property owners are treated fairly. They include the Home Owner Grant, deferment of taxes, exemptions, and appeals procedures.

Equity

Real property tax is based on the value of assets. The real property taxation system in British Columbia is equitable between people in the same situation. Properties in any community which have the same value pay the same tax for the same class of property. The existing system is also regarded as equitable in that owners of properties which have higher values pay more property tax than owners of properties with lower values.

In an ideal real property tax system there should be direct correlations between assessed value, actual value, rate of taxation and tax revenue generated. In British Columbia this does not exist. There are two main reasons:

1. The real property taxation system is discriminatory in that the rate of taxation is different among classes.

2. Assessed value does not always equal market value. This is the case with farmlands which are valued on their farm use only.

In British Columbia, use of property determines its class and class determines the level of taxation. Depending on the class, the assessed value of the property may or may not equal actual value. For example, residential properties are assessed at market value. However, inequities exist between assessed and actual values for properties classed as farms.

In British Columbia, equity exists within each class of property but not between classes.

In an ideal property taxation system, there would not be a classification structure. The same rate of taxation would apply to all properties.

Progressivity

The real property taxation system in British Columbia is proportional within each class. Generally, property which has twice the value attracts twice the tax. There is no evidence which would indicate whether the real property taxation system in British Columbia, by class, is proportional or progressive in relation to the income of

individual property owners because income is not a factor in calculating tax payable. It is, however, a factor in affordability of real property, or wealth.

Administrative structure

The administrative structure of the real property taxation system in British Columbia ensures the major taxation and assessment functions are administered by suitable agencies. Appropriate checks and balances exist to ensure the taxpayer is treated fairly.

All of the administrative elements of an ideal system exist. The provincial government exercises legislative control over the taxation and assessment functions. The British Columbia Assessment Authority provides a sound process by which to assess the values of properties and, as an independent agency, acts as an ombudsman between taxpayer and collector. The municipalities and collection districts apply and collect the tax. The Courts of Revision and Assessment Appeal Board provide accountability.

From an administrative point of view, the real property taxation system in British Columbia is more efficient and effective and closer to the ideal structure than is the taxation function. This is because the assessment function is centralized while taxation is not.

Creating a province-wide, independent Assessment Authority has proven superior to the fractured system where municipalities performed their own assessments.

A centralized authority ensures that manpower is available where and when it is needed.

Talents of professional and specialized staff are used throughout the province, promoting greater accuracy of assessments.

A centralized Assessment Authority ensures assessments are equally good in all parts of British Columbia. Central direction promotes equity by prescribing uniform procedures.

By comparison to the rest of Canada, the British Columbia Assessment Authority is carrying out the assessment function very efficiently.

Employee productivity

Since 1975 in British Columbia, the number of parcels handled per Assessment Authority employee has doubled.

British Columbia Assessment Authority employees handle more than double the number of parcels per employee than anywhere else in Canada. For example, appraisers in Vancouver, in 1985, handled double the parcels per employee as in Toronto.

Cost of assessments

In 1985 and in 1986, British Columbia had the lowest per-parcel costs of assessment - not including administration or head office support - in Canada. For example, for the City of Vancouver, the 1985 per-parcel cost of assessment was $23.48, while in Toronto it was $38.51, the highest cost of major Canadian jurisdictions.

Annual Budget: 1975-1987

Measured in constant dollars adjusted to the CPI base year 1975, the Assessment Authority's budget had dropped from $18 million in 1975 to $15.5 million in 1987.

ACCOUNTABILITY

The assessment appeals process in British Columbia ensures the taxpayer can, at little expense, challenge the fairness of the property assessment through the Courts of Revision and Assessment Appeal Board process. If the property owner still is not satisfied the case can be taken to the Supreme Courts.

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CONCLUSION

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Canada's stable governments make it a secure place for international investors to bring their capital.

Property values, especially on the Lower Mainland, have been rising because British Columbia's schools, universities, health services and business climate make it attractive for people to relocate here.

The province's location on the Pacific Rim, Expo 86, the development of Vancouver as an international financial centre, and the Vancouver Trade and Convention Centre have created an atmosphere of growth and prosperity. Property values are following the trend. Property owners are seeing their investments appreciate.

British Columbia's property assessment system is a yardstick of wealth. But if the yardstick measures properties to be of different values, depending on market forces, it does so in inches that are always the same length. All property is measured fairly and accurately using market value as the uniform basis.

The provincial government has established circuit breakers, or protections, to help people whose incomes are not keeping pace with property taxes. Home owner grants, tax deferments and exemptions are examples of the assistance available.

The B.C. Assessment Authority is not a taxing agency. It does not cause taxes to rise. Taxes rise as a result of the spending decisions of duly elected local authorities.

Taxation is grossly unpopular. No one likes to pay taxes. For that reason it is important that the system of property assessment and taxation be clearly understood by

taxpayers. For taxpayers to accept their taxation levels as fair, they must understand how they are based.

The use of market value as the basis is the single most important factor in making the property assessment system understandable to taxpayers.

Ultimately, fairness is in the blend of taxes: Income taxes, sales taxes, severance taxes, and property taxes. Acceptability is in understanding.

The British Columbia Assessment Authority is committed to fair market value as the best and fairest basis for property assessment. When its principles are understood, taxpayers also accept it as the best system. That is borne out in the fact that there are, relatively speaking, few challenges to property assessments. Annual changes to the assessment roll, following the appeal process, are minuscule.